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Cap report

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**BAY MILLS**

LIMITED

**ANNUAL REPORT**

for the year ended July 31, 1971

## INDUSTRIES USING OUR PRODUCTS:

Aircraft  
Aluminum  
Boat  
Building Construction  
Carpet  
Cement  
Chemical  
Curtain  
Electrical  
Hardware  
Highway Construction  
Mining and Smelting  
Paper  
Pipeline Construction  
Production Tooling  
Reinforced Plastics  
Rubber  
Tent Manufacturing  
Toy  
Window Manufacturing

**HEAD OFFICE**

Midland, Ontario

**DIRECTORS**

Eric H. Cerny, Montreal  
Steven F. Cerny, Midland  
Gustave W. Fewks, Montreal  
John D. Loveridge, Ingersoll  
J. Reg. Findley, Toronto  
Derek H. Mather, Montreal  
Sidney J. Nicholls, Midland

**OFFICERS**

Chairman of the Board	Eric H. Cerny
President	Steven F. Cerny
Vice-President	Gustave W. Fewks
Secretary-Treasurer	Sydney J. Nicholls

**EXECUTIVE**

General Manager	Steven F. Cerny
General Sales Manager	Sydney J. Nicholls
Controller	Frank G. Spence, C.A.
Plant Manager	Felix Kurschner

**SUBSIDIARY COMPANY**

Filterfab Limited

**AUDITORS**

Hutchins, Mullin & Blair  
Chartered Accountants, Toronto

**LEGAL COUNSEL**

Salter, Reilly, Jamieson & Apple  
Toronto

**TRANSFER AGENT**

The Royal Trust Company  
Toronto

**BANKERS**

The Toronto-Dominion Bank

**ANNUAL MEETING**

King Edward Hotel, Toronto  
November 23, 1971



# REPORT TO THE SHAREHOLDERS

Net loss for the year ending July 31st, 1971, was \$145,423 compared with net loss for the previous year of \$65,365. After allowing for accumulated dividends on Preferred shares, net loss for the last fiscal year amounted to 87.4c per Common share as against 49.8c for the preceding year. Earnings before depreciation, interest and taxes were \$115,123 compared with \$246,268.

Working capital at July 31st was \$675,362 compared with \$806,792 on the same date a year ago.

Sales decreased 3.7% from those of the previous year. The main reason for the decline is that shipments to the leisure-time and home furnishing markets were reduced due to poor general economic conditions. The lack of effective anti-dumping legislation, the ease of access to the Canadian market by foreign manufacturers and the increased value of the dollar have all combined to create problems in both sales volume and pricing.

Our Midland plant was running at two-thirds of capacity through most of

the fiscal year, but is now running at a higher level. Our present order book combined with a better economic outlook indicates that we will be able to operate at this level throughout the year.

The income of the non-woven division was not sufficient to offset the heavy product/market development expenses required to build this new business. The loss incurred was written off. The division is now operating at close to its capacity and is expected to contribute to earnings from now on. We anticipate expanding the capacity at St. Catharines due to the requirements of a number of product lines, in particular some promising applications for the automobile and carpet industries.

An offer to purchase our subsidiary Filterfab Limited has recently been received and is being considered by your Board. If accepted, it is unlikely to have a significant effect on sales, earnings or working capital.

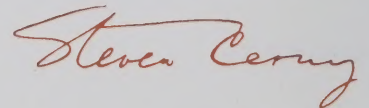
The Cumulative Preferred Share Dividend was last paid on September

15th, 1970. It is now one year in arrears. Your Company must meet two requirements before dividends can be resumed. It must have net current assets in excess of \$750,000 and its net earnings after August 1st, 1968, must exceed dividends paid since that time. Your management does not expect to meet both requirements in this fiscal year.

Our contract with the Union representing our employees expires on December 16th, 1971. In view of the loss incurred your Company has asked the Union to extend the agreement with no changes to the end of July 1972. Your management hopes that the employees and their Union will recognize such an extension to be in everyone's interest, so as to allow the Company to regain its financial strength.

The coming year is expected to continue to be difficult. However with increased utilization of capacity and a contribution to earnings from our non-woven division, the Company is expected to resume its growth in sales and profitability.

Respectfully submitted  
on behalf of the Board



S. F. Cerny  
President

Midland, Ontario  
October 20th, 1971

# BAY MILLS LIMITED

and wholly owned subsidiary

## Statement of Earnings

Year Ended July 31, 1971

<b>EARNINGS</b> (before undernoted items — Note 6) .....
Depreciation .....
Interest on funded debt .....
Taxes on income (recoverable, deferred) .....
<b>NET EARNINGS (LOSS)</b> .....

1971	1970
\$ 115,123	\$ 246,268
309,599	316,161
100,272	107,233
(149,325)	(111,761)
<u>(145,423)</u>	<u>(65,365)</u>

## Statement of Source and Application of Funds

Year Ended July 31, 1971

### SOURCE OF FUNDS

Net earnings (loss) .....
Provision for depreciation .....
Increase (decrease) in deferred tax credit (note 2) .....
Total from operations .....
Notes payable .....
Contributed surplus - area development grant .....
Decrease (increase) on other assets .....

\$ (145,423)	\$ (65,365)
309,599	316,161
(141,000)	(121,000)
<u>23,176</u>	<u>129,796</u>
	54,516
(3,490)	71,490
3,697	(5,696)
<u>23,383</u>	<u>250,106</u>
59,808	412,867
55,000	55,000
8,850	37,760
31,155	—
<u>154,813</u>	<u>505,627</u>
(131,430)	(255,521)
806,792	1,062,313
<u>675,362</u>	<u>806,792</u>

### APPLICATION OF FUNDS

Net addition to building, machinery and equipment .....
Decrease first mortgage bonds .....
Dividends on preferred shares .....
Decrease note payable .....

### NET CURRENT ASSETS

#### NET INCREASE (DECREASE) FOR YEAR

Beginning of year .....
End of year .....



## ASSETS

## CURRENT ASSETS

Cash on hand and on deposit .....	
Accounts receivable, trade, less allowance for doubtful accounts .....	
Inventories, at lower of cost and replacement value .....	
Area development grant receivable .....	
Prepaid and deferred expenses .....	

## Total current assets .....

## FIXED ASSETS (at cost)

Buildings .....	
Machinery and equipment .....	
Furniture and fixtures .....	

Less accumulated depreciation .....

Land .....

## Total fixed assets — net .....

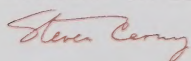
## OTHER ASSETS

Deposits .....	
Cash surrender value of life insurance .....	

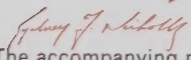
## Total other assets .....

	1971	1970
	\$ 21,523	\$ 525
	1,040,721	1,152,944
	1,116,186	1,220,005
	—	59,779
	17,092	52,136
	<hr/>	<hr/>
	2,195,522	2,485,389
	<hr/>	<hr/>
	1,457,093	1,457,093
	2,552,473	2,493,090
	62,367	61,942
	<hr/>	<hr/>
	4,071,933	4,012,125
	1,905,773	1,596,174
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	2,166,160	2,415,951
	24,353	24,353
	<hr/>	<hr/>
	2,190,513	2,440,304
	<hr/>	<hr/>
	6,124	11,539
	4,440	2,722
	<hr/>	<hr/>
	10,564	14,261
	<hr/>	<hr/>
	4,396,599	4,939,954
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APPROVED ON BEHALF OF THE BOARD



S. F. Cerny, Director



S. J. Nicholls, Director

The accompanying notes form an integral part of the financial statements

# CONSOLIDATED BALANCE SHEET, JULY 31, 1971

## LIABILITIES

### CURRENT LIABILITIES

	1971	1970
Due to bank, secured .....	\$ 600,000	\$ 731,962
Accounts payable and accrued liabilities .....	834,008	854,964
Current portion of funded indebtedness .....	86,152	86,152
Taxes on income, estimated .....	—	5,519
<b>Total current liabilities</b> .....	<b>1,520,160</b>	<b>1,678,597</b>

### FUNDED INDEBTEDNESS

First mortgage bonds series A (Note 1) .....	490,000	525,000
First mortgage bonds series B (Note 1) .....	360,000	380,000
Note payable due August 31, 1972, 7¾% variable .....	150,000	150,000
Note payable due July 31, 1978, 7% .....	250,000	250,000
Note payable due \$7,788 quarterly, 9½% .....	23,361	54,516
	<b>1,273,361</b>	<b>1,359,516</b>

<b>DEFERRED TAX CREDIT</b> (Note 2) .....	<b>168,000</b>	<b>309,000</b>
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## SHAREHOLDERS' EQUITY

### CAPITAL STOCK

Authorized:		
149,000 preferred shares, par value \$10 each		
500,000 common shares, no par value		
Issued:		
Preferred — 59,000 6% cumulative redeemable, participating first preferred shares Series A (Note 1)	590,000	590,000
Common — 206,985 shares (Note 4) .....	229,900	229,900
	<b>819,900</b>	<b>819,900</b>

### SURPLUS

Earned surplus .....	308,344	462,617
Reserve for redemption of preferred shares .....	1,431	1,431
Capital surplus .....	10,000	10,000
Contributed surplus (Note 3) .....	295,403	298,893
	<b>615,178</b>	<b>772,941</b>
<b>Shareholder's equity</b> .....	<b>1,435,078</b>	<b>1,592,841</b>

	<b>4,396,599</b>	<b>4,939,954</b>
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## NOTES TO FINANCIAL STATEMENTS

### NOTE 1:

First mortgage Sinking Fund Bonds "Series A" and "Series B" were created under a Trust Deed Agreement dated September 1, 1964 and a Supplemental Deed of Trust and Mortgage dated September 1, 1968. The Series A Bonds mature September 1, 1984 and are repayable in principal amounts of \$35,000 per annum. The Series B Bonds mature September 1, 1988 and are repayable in principal amounts of \$20,000 per annum commencing September 1, 1970. Bonds of both series are redeemable at the option of the company at any time at the prices and subject to the terms and conditions contained in the Trust Deed. Covenants for the Series A and Series B Bonds restrict the payment of cash dividends in the future until net current assets and earned surplus reach specific levels. At July 31, 1971, preferred dividends were in arrears in the amount of \$26,550.

### NOTE 2:

The deferred tax credit represents estimated tax deferred by claiming approximately \$314,400 of capital cost allowance in excess of that recorded in the accounts.

### NOTE 3:

The area development grant received is subject to fulfillment by the Company of certain conditions until December 1, 1971 which it is expected that the Company will meet.

### NOTE 4:

Outstanding common share warrants and options	
Warrants with 'Series A' Bonds, \$7.00 per share to September 1, 1974 .....	Number of Shares 21,000
Warrants with 'Series B' Bonds, \$5.00 per share to September 1, 1974, \$6.00 per share to 1979 .....	12,000
Warrants with 7% note due July 31, 1978 \$4.50 per share to 1973, \$5.50 per share to 1978 .....	50,000
	<u>83,000</u>

### NOTE 5:

Aggregate direct remuneration paid to salaried directors amounted to \$100,177. (1970 — \$117,104).

### NOTE 6:

Sales and cost of goods sold for the year ended July 31, 1971, compared to the previous year, decreased by 3.69% and .52% respectively.

## AUDITORS' REPORT

To the Shareholders of  
Bay Mills Limited:

We have examined the consolidated balance sheet of BAY MILLS LIMITED AND WHOLLY OWNED SUBSIDIARY as at July 31, 1971 and the consolidated statements of earnings, surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned financial statements present fairly the consolidated financial position of the companies as at July 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

August 31, 1971

HUTCHINS, MULLIN & BLAIR  
Chartered Accountants



# BAY MILLS LIMITED

*and wholly owned subsidiary*

## Statement of Surplus Accounts Year Ended July 31, 1971

### EARNED SURPLUS

Balance August 1 .....	
Deduct:	
Consolidated net loss for the year .....	
Dividends paid on preferred shares .....	
Appropriation to reserve for redemption of preferred shares .....	
Balance July 31 .....	

	1971	1970
	\$ 462,617	\$ 566,222
	145,423	65,365
	8,850	37,760
	—	480
	<u>154,273</u>	<u>103,605</u>
	<u>308,344</u>	<u>462,617</u>
	1,431	951
	—	480
	<u>1,431</u>	<u>1,431</u>
	10,000	10,000
	—	—
	<u>10,000</u>	<u>10,000</u>
	298,893	284,254
	(3,490)	14,639
	<u>295,403</u>	<u>298,893</u>

### RESERVE FOR REDEMPTION OF PREFERRED SHARES

Balance August 1 .....	
Add:	
Amount appropriated from earned surplus .....	
Balance July 31 .....	

### CAPITAL SURPLUS

Balance August 1 .....	
No change during the year .....	
Balance July 31 .....	

### CONTRIBUTED SURPLUS

Balance August 1 .....	
Add:	
Area development grant received (final adjustment) .....	
Balance July 31 .....	

## OPERATING RESULTS

	1971	1970	1969
<i>Earnings</i>	\$ 115,123	\$ 246,268	\$ 635,406
<i>Provision for Depreciation</i>	309,599	316,161	235,471
<i>Interest</i>	100,272	107,233	92,142
<i>Provision for Taxes on Income</i>	(149,325)	(111,761)	154,816
<i>Non Recurring Items</i>	—	—	5,865
<i>Net Earnings (Loss)</i>	(145,423)	(65,365)	147,112
<i>% of Shareholders' Equity at Beginning of Year</i>	(9.1%)	(3.9%)	10.6%
<i>Per Common Share</i>	(87.4c)	(49.8c.)	52.5c.

## BALANCE SHEET DATA

<i>Net Current Assets</i>	\$ 675,362	\$ 806,792	1,062,313
<i>Fixed Assets less Depreciation</i>	2,190,513	2,440,304	2,343,598
<i>Other Assets</i>	10,564	14,261	65,416
<i>Net Tangible Assets</i>	2,876,439	3,261,357	3,471,327
<i>Funded Debt</i>	850,000	905,000	960,000
<i>Other Deferred Financing</i>	591,361†	763,516†	830,000
<i>Shareholders' Equity</i>	1,435,078	1,592,841	1,681,327

## FINANCIAL RATIOS

<i>Current Assets to Current Liabilities</i>	1.44	1.48	1.82
<i>Net Tangible Assets to Funded Indebtedness</i>	3.38	3.60	3.62
<i>Shareholders' Equity to Funded Indebtedness</i>	1.69	1.76	1.75

† Includes deferred tax credit

\* Prior to expansion in 1965

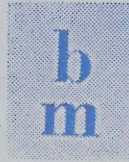


# COMPARATIVE TEN YEAR RECORD

1968	1967	1966	1965	1964	1963	1962
\$ 578,435	\$ 422,940	\$ 243,744	\$ 4,042	\$ 258,745	\$ 280,080	\$ 213,220
165,171	171,208	170,560	132,967	75,248	57,166	55,888
41,140	43,415	45,317	31,266	6,374	16,790	15,465
196,000	105,000	—	(69,107)	60,308	82,000	47,090
—	—	—	—	—	—	—
176,124	103,317	27,867	(91,084)	116,815	124,124	94,777
14.2%	9.1%	2.5%	(7.3%)	22.2%	30.0%	30.2%
66.3c.	32.4c.	(3.9c.)	(61.7c.)	39.2c.	—	—
\$ 828,036	\$ 620,004	\$ 419,579	\$ 370,598	\$ 601,685	\$ 406,244	\$ 324,896
1,485,902	1,352,946	1,382,343	1,427,739	803,392	313,812	305,383
73,373	6,044	3,755	14,473	11,425	15,882	8,370
2,387,311	1,978,994	1,805,677	1,812,810	1,416,502	735,938	638,649
595,000	630,000	665,000	700,000	170,000	210,410	234,719
408,000 †	105,000 †	—	—	—	—	—
1,384,311	1,243,994	1,140,677	1,112,810	1,246,502	525,528	403,930
1.84	1.60	1.35	1.32	2.25	2.04	2.06
4.01	3.14	2.71	2.59	8.33 *	3.49	2.72
2.33	1.97	1.72	1.59	7.33 *	2.50	1.72





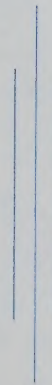


**BAY MILLS LIMITED**

MIDLAND

ONTARIO

I N T E R I M  
R E P O R T



Nine Months Ended April 30, 1971

# BAY MILLS LIMITED

and wholly owned subsidiary

(UNAUDITED)

	Nine Months Ended	
	April 30, 1971	April 30, 1970
<b>STATEMENT OF EARNINGS</b>		
<b>EARNINGS</b> (before under-noted items) .....	\$ 27,793	\$ 269,850
Depreciation .....	230,439	221,250
Interest on funded debt .....	75,982	80,486
Taxes on income .....	—	—
<b>NET EARNINGS (Loss)</b> .....	<u>\$ (278,628)</u>	<u>\$ (31,886)</u>
<b>STATEMENT OF SOURCE AND APPLICATION OF FUNDS</b>		
<b>SOURCE OF FUNDS</b>		
Net earnings (loss) .....	\$ (278,628)	\$ (31,886)
Provision for depreciation .....	230,439	221,250
Total from operations .....	(48,189)	189,364
Area development grant .....	(3,490)	70,713
Change in other assets .....	1,812	(4,193)
Notes issued .....	—	56,902
	<u>\$ (49,867)</u>	<u>\$ 312,786</u>
<b>APPLICATION OF FUNDS</b>		
Net additions to fixed assets .....	\$ 51,150	\$ 319,553
Decrease in first mortgage bonds .....	55,000	55,000
Decrease in notes payable .....	23,366	—
Dividends on preferred shares .....	8,850	29,060
	<u>\$ 138,366</u>	<u>\$ 403,613</u>
<b>NET CURRENT ASSETS</b>		
Net increase (decrease) .....	\$ (188,233)	\$ (90,827)
July 31st .....	806,792	1,062,313
April 30th .....	<u>\$ 618,559</u>	<u>\$ 971,486</u>